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ANNUAL REPORT 1964 ANGLO-CANADIAN TELEPHONE COMPANY



ANGLO-CANADIAN TELEPHONE COMPANY

NOTICE OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of Anglo-Canadian Telephone Company will, as determined by resolution of the Board of Directors, be held in the Assembly Room, Mezzanine 2, The Royal Bank of Canada Building, 1 Place Ville Marie, Montreal, P.Q., Canada, on Tuesday, the 7th day of April, 1964 at two o'clock in the afternoon: to receive the annual report of the Board of Directors, to which are appended balance sheets and statements of income and surplus, and the auditors' report, all for the fiscal year ended 31st December, 1963; to elect ten directors for one year to replace the ten directors whose terms expire at the Annual General Meeting; to appoint auditors for the ensuing year and to fix their remuneration; and to transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 24, 1964 are entitled to vote at the said meeting. The transfer books will not be closed.

A form of proxy is enclosed herewith. If you are unable to attend the meeting kindly sign and forward this proxy by return mail in the enclosed prepaid envelope.

The Company's annual report to shareholders has been mailed to you under separate cover.

Dated at Montreal, P.Q., Canada, this 6th day of March, 1964.

CAMERON HOUGH,
Secretary.

If you hold more than one class of stock, you will receive more than one set of proxy material. A separate proxy should be completed for each class of stock as we find this more economical than to try to eliminate duplications.

COMPARATIVE HIGHLIGHTS

	1964 (In Thousands)	1963
Subsidiaries		
Total Operating Revenues	\$92,932	\$82,222
Operating Expenses and Taxes less Miscellaneous		
Other Income — Net	71,074	62,231
Net Operating Income of Subsidiaries	<u>\$21,858</u>	<u>\$19,991</u>
Interest and Other Deductions	15,771	14,486
Net Income of Subsidiaries Applicable to Anglo	<u>\$ 6,087</u>	<u>\$ 5,505</u>
Dividends Paid to Anglo	3,799	3,563
Earnings Retained by Subsidiaries	<u>\$ 2,288</u>	<u>\$ 1,942</u>
Anglo-Canadian Telephone Company		
Income from Subsidiaries:		
Note Interest, Dividends on Preferred Stock and Other Income	\$ 165	\$ 121
Dividends on Common Stock	3,799	3,563
Miscellaneous Income	76	76
Total Income	<u>\$4,040</u>	<u>\$3,760</u>
Operating Expenses, Taxes and Fixed Charges	520	668
Consolidated Net Income	<u>\$ 5,808</u>	<u>\$ 5,034</u>
Dividends on Preferred Stock	<u>1,015</u>	<u>845</u>
Consolidated Net Income Applicable to Class A and Deferred Stocks	<u><u>\$ 4,793</u></u>	<u><u>\$ 4,189</u></u>
Earnings Per Share:		
Anglo-Canadian Telephone Company—		
Earnings Per Share of Class A Stock Outstanding	\$ 2.81	\$ 2.53
Earnings Per Share of Deferred Stock Outstanding	\$ 2.21	\$ 1.93
Anglo-Canadian Telephone Company and Subsidiaries—		
Earnings Per Share of Class A Stock Outstanding	\$ 5.26	\$ 4.61
Earnings Per Share of Deferred Stock Outstanding	\$ 4.66	\$ 4.01
Dividends Paid:		
Class A Stock (In Thousands)	\$ 1,249	\$ 1,102
Per Share	\$ 1.70	\$ 1.50
Deferred Stock (In Thousands)	\$ 220	\$ 180
Per Share	\$ 1.10	\$.90

ANNUAL REPORTS OF THE BOARD OF DIRECTORS AND OF THE AUDITORS 1964

8th March 1965

TO THE SHAREHOLDERS:

There is submitted herewith the Thirtieth Annual Report of Anglo-Canadian Telephone Company for the year 1964. This report is presented in two sections, as contemplated by Section 1 of Article II of the Company's General By-laws: *First*, the Annual Report of the Board of Directors, to which is appended balance sheets, statements of income and statements of earnings retained for use in the business, individually and consolidated with its subsidiaries as at 31st December 1964 (being a date not more than four months before the Annual Meeting), together with comparative results for the year 1963; and *Second*, the Annual Report for the year 1964 of the Company's auditors, Riddell, Stead, Graham and Hutchison, dated 27th January 1965.



President



EARNINGS AND DIVIDENDS

Anglo-Canadian Telephone Company. Corporate net income for the year 1964 amounted to \$3,520,302, compared with \$3,091,988 in 1963. After deducting dividends on the preferred stocks, earnings available for Class A and Deferred stocks were \$2,505,552, an increase of \$258,272 over the 1963 earnings of \$2,247,280, equal to \$2.81 per share of Class A stock and \$2.21 per share of Deferred stock. This compares with \$2.53 and \$1.93, respectively, for the year 1963. Dividends paid on the Class A stock in 1964 amounted to \$1.70 per share against \$1.50 paid in 1963. A similar increase of \$.20 per share was paid on the Deferred stock in 1964. The total dividends paid on the Class A stock and on the Deferred stock in 1964 represented a payout of 65.4% of available earnings after provision for the annual sinking fund requirement of \$260,000 on the Company's 6% Debentures.

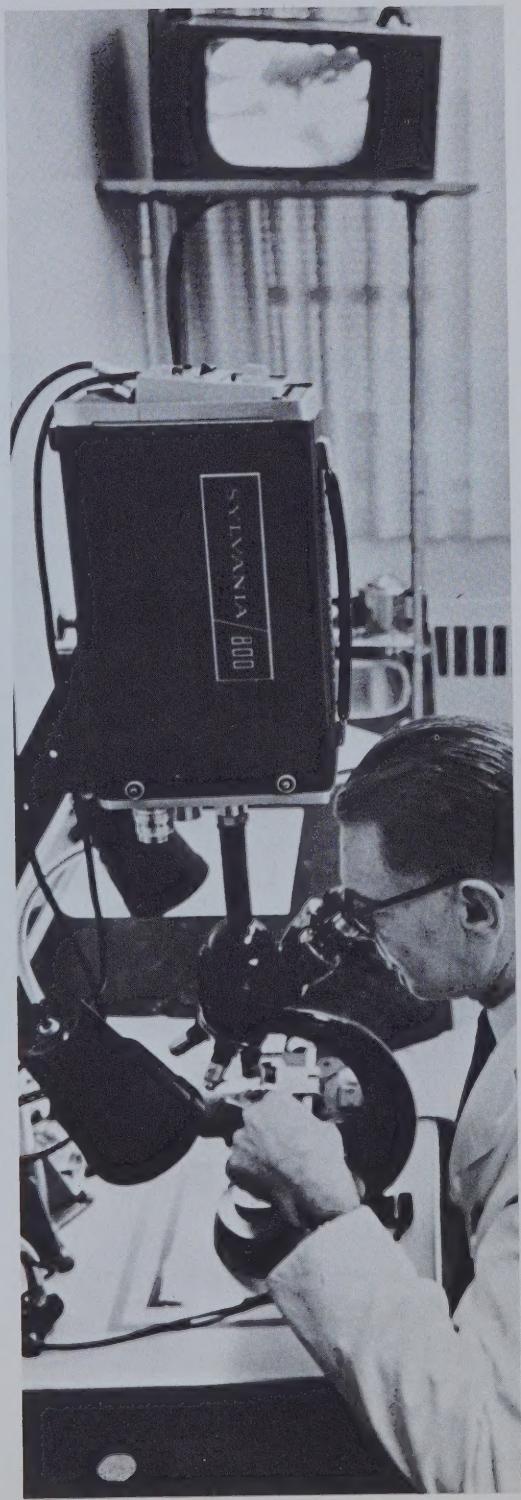
Anglo-Canadian Telephone Company and Subsidiaries. Consolidated net income of the Company and its subsidiaries was \$5,808,469 in 1964, compared with \$5,034,142 in 1963. After deducting preferred dividends, the consolidated earnings per share of Class A stock outstanding were \$5.26 in 1964 compared with \$4.61 in 1963 and the per share earnings on the Deferred stock amounted to \$4.66 in 1964 compared with \$4.01 in 1963.

In addition to the four quarterly dividends of \$.40 per Class A share, the Directors declared an extra dividend of \$.10 per share in the last quarter of 1964, bringing the total dividends paid on the Class A shares during the year to \$1.70 as stated above.

FINANCIAL

The Company did not find it necessary to do any financing during the year 1964 and at year end held a strong cash position.

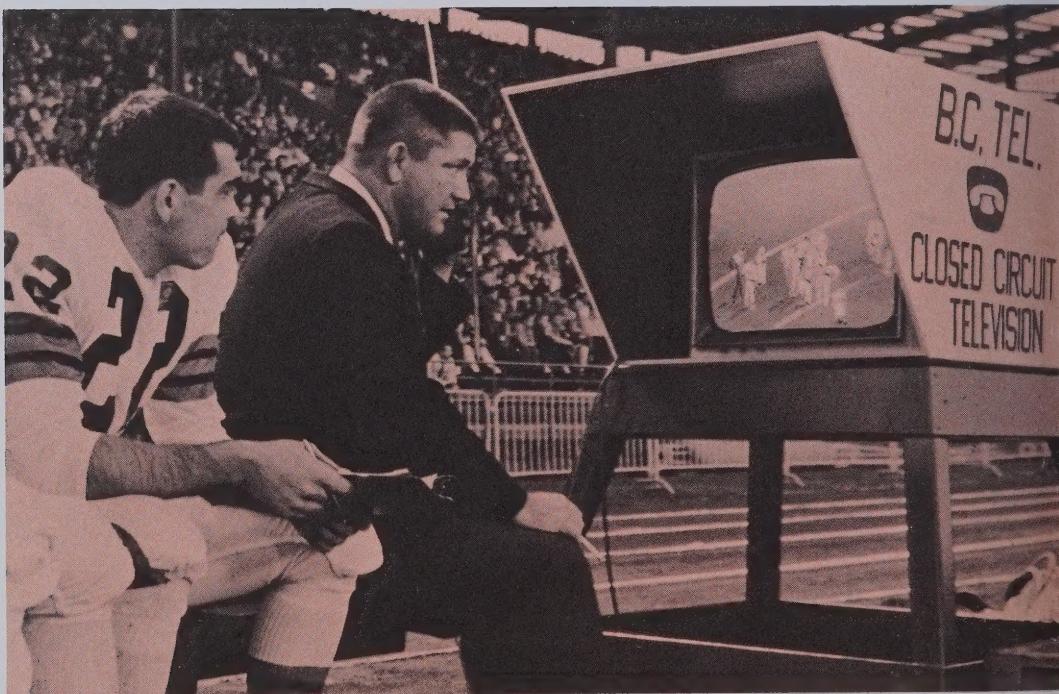
Two further payments were received from the Canadian War Damage Commission during the year amounting to \$150,173 in partial settlement of principal and interest on the Company's claim in respect to its previous investment in Philippine Long Distance Telephone Company. Total payments of principal and interest received since 1960 on this claim amount to \$929,542, substantially completing the expected payments.



**BRITISH COLUMBIA
TELEPHONE COMPANY**

Anglo-Canadian Telephone Company owns 50.14% of the outstanding ordinary shares of British Columbia Telephone Company, the major telephone company in the Province of British Columbia operating approximately 94% of all the telephones in the Province of British Columbia.

During the year 1964 over \$39,000,000 was expended on the construction of new and improved facilities and the telephones



in service increased by 36,605 to a total of 661,708 at December 31. Approximately 99% of the telephones in service were dial operated and 70% had access to Direct Distance Dialing linking them to 60 million other North American telephones.

Total operating revenues in 1964 increased 13% to a total of \$87,474,632 while net operating income was up 11% to a total of \$19,725,242. The earnings available for ordinary shares were \$8,455,655 for the year 1964, compared with \$7,609,738 in the previous year. Dividends paid to Anglo on ordinary shares in 1964 were \$2,769,408 compared with \$2,654,016 for the year 1963.

**DOMINION DIRECTORY
COMPANY LIMITED**

The Directory Company, a subsidiary owned entirely by Anglo, sells directory advertising and supervises the publication of telephone directories for British Columbia Telephone Company and other telephone operating companies in Canada. Net income for 1964 was \$272,000 compared with \$287,000 in 1963. Dividends paid to Anglo amounted to \$200,000 in 1964, the same amount paid in 1963.

**CANADIAN TELEPHONES AND
SUPPLIES LTD.**

This subsidiary, wholly owned by Anglo, provides contract installation services for British Columbia Telephone Company and other companies in Canada. The net income for the year 1964 was \$126,400 compared with \$113,500 for the previous year. Dividends paid to Anglo in 1964 amounted to \$204,750 compared with \$84,000 in the previous year.

**COMPANIA DOMINICANA de
TELEFONOS, C. por A.**

Anglo owns all of the shares of common stock of this company which operates the telephone system in the Dominican Republic. During 1964 the Company invested an additional \$1,731,000 in telephone plant for new and improved facilities and at December 31, 1964 telephones in service numbered 28,850, a gain of 2,783 over the previous year.

Net income for the year was \$1,449,013, an increase of \$171,581 over the previous year, or 13%. Dividends declared and payable to Anglo for the year 1964 were \$624,864, the same as for the year 1963. The exchange control restrictions mentioned in previous years' reports continued in effect. However, during 1964 the exchange control authorities permitted the payment of \$850,000 in Canadian funds to Anglo in liquidation of principal and interest on notes previously issued by the Company to cover dividends declared in 1962, 1963 and early 1964. At year end Anglo held notes of the Company covering unpaid dividends of \$671,436 in Canadian funds.



Affiliated Companies. General Telephone & Electronics Corporation owns all of the outstanding stock of Automatic Electric Company and General Telephone & Electronics International Incorporated, and owns a majority of the voting rights of Anglo-Canadian Telephone Company. Lenkurt Electric Co., Inc. is a subsidiary of Automatic Electric Company. Automatic Electric (Canada) Limited, Automatic Electric Sales (Canada) Limited and Lenkurt Electric Co. of Canada, Ltd. are subsidiaries of General Telephone & Electronics International Incorporated. Each of the manufacturing subsidiaries manufactures telephone equipment which is sold in Canada through Automatic Electric Sales (Canada) Limited and/or Lenkurt Electric Co. of Canada, Ltd. to independent telephone companies and other customers in Canada, including British Columbia Telephone Company. The equipment of each of the manufacturing subsidiaries also is sold to Compania Dominicana de Telefonos, C. por A. through General Telephone & Electronics International Incorporated.

Disclosure of Interest of Directors and Officers. During the year 1964 the interest of the directors and officers of the Company in the affiliated companies previously referred to, was as follows:

DONALD C. POWER was an officer, director and shareholder of General Telephone & Electronics Corporation, a director and shareholder of British Columbia Telephone Company, a director of Automatic Electric Company, a director of General Telephone & Electronics International Incorporated, and a director and shareholder of Compania Dominicana de Telefonos, C. por A.

THOMAS A. BOYD was a director and shareholder of General Telephone & Electronics Corporation.

JAMES J. CLERKIN, JR., was an officer and shareholder of General Telephone & Electronics Corporation, a director of British Columbia Telephone Company from March 12, 1964, a director and shareholder of Automatic Electric (Canada) Limited until April 15, 1964, a director and shareholder of Automatic Electric Sales (Canada) Limited until April 14, 1964, a director and shareholder of Compania Dominicana de Telefonos, C. por A. from January 31, 1964, an officer until January 14, 1964 and a director for the entire year of General Telephone & Electronics International Incorporated and a director of Lenkurt Electric Co. of Canada, Ltd. until April 7, 1964.

JOHN J. DOUGLAS was an officer and a shareholder of General Telephone & Electronics Corporation and a director of General Telephone & Electronics International Incorporated.

THEODORE S. GARY was an officer, director and shareholder of General Telephone & Electronics Corporation, a director and shareholder of British Columbia Telephone Company, a director of Automatic Electric Company, and an officer, director and shareholder of Compania Dominicana de Telefonos, C. por A.

CYRUS H. MCLEAN was Chairman of the Board, a director and shareholder of British Columbia Telephone Company and an officer, director and shareholder of Compania Dominicana de Telefonos, C. por A.

LESLIE H. WARNER was an officer, director and shareholder of General Telephone & Electronics Corporation, a director of Automatic Electric Company and a director of General Telephone & Electronics International Incorporated.



CAMERON HOUGH was a shareholder of General Telephone & Electronics Corporation and British Columbia Telephone Company.

HAROLD H. HOWLETT was an officer and shareholder of General Telephone & Electronics Corporation, an officer of General Telephone & Electronics International Incorporated and an officer of Compania Dominicana de Telefonos, C. por A.

RALPH D. HEUSEL was an officer and shareholder of General Telephone & Electronics Corporation, an officer of General Telephone & Electronics International Incorporated and an officer of Compania Dominicana de Telefonos, C. por A.

Pending Litigation. In 1959 one of the Company's shareholders filed two lawsuits in the Superior Court in Montreal naming the Company as one of the defendants. In each of the Company's Annual Reports for the years 1959 through 1962, the claims asserted in these two cases were fully described.

By order dated December 15, 1964 this litigation was finally disposed of by the entry of a judgment in favor of the Company and the other defendants.



BALANCE SHEETS

As at 31st December 1964 and 1963

ASSETS

	31st December	
	1964	1963
INVESTMENTS (Notes 2 and 3)		
Subsidiary companies	\$ 52,110,123	\$ 52,274,116
CURRENT ASSETS		
Cash	\$ 1,273,951	\$ 441,245
Bank deposit receipts	600,000	600,000
Due from subsidiary companies (Note 1)	1,671,627	1,711,546
	\$ 3,545,578	\$ 2,752,791
UNAMORTIZED DEBT DISCOUNT AND EXPENSE		
	\$ 143,581	\$ 152,812
	<u>\$55,799,282</u>	<u>\$55,179,719</u>

LIABILITIES

SHAREOWNERS' EQUITY		
CAPITAL STOCK (Note 7)		
Class A	\$ 7,346,850	\$ 7,346,850
Deferred	2,000,000	2,000,000
Preferred	19,500,000	19,500,000
	<u>\$28,846,850</u>	<u>\$28,846,850</u>
PREMIUM ON CAPITAL STOCK	10,008,247	10,008,247
EARNINGS RETAINED FOR USE IN THE BUSINESS —		
Unappropriated (Note 5)	11,420,430	10,383,843
Appropriated for general contingencies	425,000	425,000
	<u>\$50,700,527</u>	<u>\$49,663,940</u>
6% SINKING FUND DEBENTURES SERIES A DUE 1st FEBRUARY 1983 (Note 4)	\$ 4,940,000	
Less: Sinking fund instalment due 2nd February, 1965	260,000	
	<u>\$ 4,680,000</u>	<u>\$ 4,940,000</u>
CURRENT LIABILITIES		
Long-term debt — current sinking fund maturity (above) (less amount purchased for sinking fund)	\$ 33,000	\$ 221,000
Accounts payable	39,278	5,098
Accrued interest on debentures	117,825	129,025
Accrued dividends on preferred shares (subsequently declared)	169,542	169,542
Provision for income taxes	31,550	23,554
	<u>\$ 391,195</u>	<u>\$ 548,219</u>
RESERVE FOR EMPLOYEES' BENEFITS	<u>\$ 27,560</u>	<u>\$ 27,560</u>
	<u>\$55,799,282</u>	<u>\$55,179,719</u>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors

JOHN J. DOUGLAS, Director LESLIE H. WARNER, Director

STATEMENTS OF INCOME AND EXPENSES

For Years Ended 31st December 1964 and 1963

	1964	1963
INCOME		
Subsidiary companies (dividends, interest and other income) (Note 1)	\$ 3,999,871	\$ 3,732,822
Other income	40,593	27,518
	<u>\$4,040,464</u>	<u>\$ 3,760,340</u>
EXPENSES		
General, administrative and contractual expenses ..	\$ 145,651	\$ 120,516
Interest and amortization of debt expense	315,582	508,900
Provision for income taxes	56,800	36,600
Other taxes	2,129	2,336
	<u>\$ 520,162</u>	<u>\$ 668,352</u>
Net income for the year	<u>\$3,520,302</u>	<u>\$ 3,091,988</u>

STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS UNAPPROPRIATED

For Year Ended 31st December 1964

Balance as at 1st January 1964	\$10,383,843
<i>Add</i>	
Net income for the year	3,520,302
	<u>\$13,904,145</u>
<i>Deduct</i>	
Dividends paid or provided for:	
4½% cumulative preferred stock	\$ 281,250
\$2.90 cumulative preferred stock	362,500
\$2.65 cumulative preferred stock	371,000
Class A stock	1,248,965
Deferred stock	220,000
	<u>2,483,715</u>
Balance as at 31st December 1964	<u>\$11,420,430</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

As at 31st December 1964 and 1963

ASSETS

	31st December	
	1964	1963
FIXED ASSETS		
Land, buildings, plant and equipment, at cost (including \$2,551,875 being excess of carrying value of investment in subsidiary over book value of its net assets)	\$410,020,684	\$378,306,541
Less: Provision for accrued depreciation	73,042,165	60,742,071
	<u>\$336,978,519</u>	<u>\$317,564,470</u>
INVESTMENTS AND OTHER ASSETS	<u>\$ 479,482</u>	<u>\$ 531,095</u>
CURRENT ASSETS		
Cash	\$ 2,757,422	\$ 2,343,333
Bank deposit receipts	675,000	1,450,000
Accounts and notes receivable, less provision for doubtful accounts	12,080,950	11,466,837
Due from affiliated companies	477,582	68,546
Materials and supplies, at cost	6,487,611	6,463,086
Prepayments	932,472	1,509,069
	<u>\$ 23,411,037</u>	<u>\$ 23,300,871</u>
DEFERRED CHARGES		
Unamortized debt discount and expense	\$ 3,792,776	\$ 3,505,099
Other deferred charges	2,417,703	1,417,371
	<u>\$ 6,210,479</u>	<u>\$ 4,922,470</u>
	<u>\$367,079,517</u>	<u>\$346,318,906</u>

The accompanying notes form an integral part of these financial statements.

LIABILITIES

	31st December	
	1964	1963
SHAREOWNERS' EQUITY		
CAPITAL STOCK (Note 7)		
Class A	\$ 7,346,850	\$ 7,346,850
Deferred	2,000,000	2,000,000
Preferred	<u>19,500,000</u>	<u>19,500,000</u>
	<u>\$ 28,846,850</u>	<u>\$ 28,846,850</u>
PREMIUM ON CAPITAL STOCK	10,008,247	10,008,247
EARNINGS RETAINED FOR USE IN THE BUSINESS—		
Unappropriated	21,936,908	18,684,605
Appropriated for general contingencies	953,704	881,253
	<u>\$ 61,745,709</u>	<u>\$ 58,420,955</u>
PREFERENCE AND PREFERRED SHARES OF SUBSIDIARY OWNED BY PUBLIC, AND MINORITY INTEREST		
British Columbia Telephone Company —		
Preference and preferred shares	\$ 65,500,000	\$ 65,487,700
Minority interest of ordinary shareowners.....	<u>47,623,046</u>	<u>46,161,115</u>
	<u>\$113,123,046</u>	<u>\$111,648,815</u>
LONG-TERM DEBT (Note 4)	<u>\$162,180,000</u>	<u>\$142,440,000</u>
CURRENT LIABILITIES		
Long-term debt — current sinking fund maturity (less amount purchased for sinking fund)	\$ 33,000	\$ 221,000
Bank loan	2,500,000	6,500,000
Accounts payable	5,095,146	3,036,656
Accrued interest on long-term debt	2,529,283	2,306,108
Accrued dividends	1,538,900	1,538,742
Due to affiliated companies	2,169,606	2,369,804
Advance billings and payments	2,405,369	2,737,397
Provision for income taxes	4,825,852	6,159,714
	<u>\$ 21,097,156</u>	<u>\$ 24,869,421</u>
RESERVES AND DEFERRED CREDITS		
Deferred income taxes (Note 6)	\$ 8,670,544	\$ 8,670,544
Other	<u>263,062</u>	<u>269,171</u>
	<u>\$ 8,933,606</u>	<u>\$ 8,939,715</u>
	<u>\$367,079,517</u>	<u>\$346,318,906</u>

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES

For Years Ended 31st December 1964 and 1963

	1964	1963
OPERATING REVENUES		
Local service	\$51,675,846	\$47,930,213
Toll service	37,440,761	30,892,997
Miscellaneous	4,344,202	3,808,864
Less: Provision for uncollectible accounts	(528,371)	(410,137)
	<u>\$92,932,438</u>	<u>\$82,221,937</u>
OPERATING EXPENSES AND TAXES		
Maintenance	\$17,094,908	\$15,381,577
Provision for depreciation	19,104,251	16,174,674
Traffic, commercial, general administrative and other	21,105,163	17,960,202
General taxes	3,130,167	2,825,401
Provision for income taxes	11,122,707	10,496,175
	<u>\$71,557,196</u>	<u>\$62,838,029</u>
Net Operating Income	<u>\$21,375,242</u>	<u>\$19,883,908</u>
OTHER INCOME — Miscellaneous — net (including \$395,210 and \$495,088 interest charged to construction)	<u>448,008</u>	<u>593,644</u>
	<u><u>\$21,823,250</u></u>	<u><u>\$19,977,552</u></u>
INTEREST AND OTHER DEDUCTIONS		
Interest on bonds and debentures	\$ 8,008,464	\$ 7,230,457
Other interest and amortization of debt discount and expenses	316,980	600,641
	<u>\$ 8,325,444</u>	<u>\$ 7,831,098</u>
Net Income	<u><u>\$13,497,806</u></u>	<u><u>\$12,146,454</u></u>
Dividends of \$3,472,974 in 1964 and \$3,317,762 in 1963 to preference and preferred shareholders of British Columbia Telephone Company and minority interest of ordinary shareholders in the net income of that company for the year	7,689,337	7,112,312
Consolidated Net Income	<u><u>\$ 5,808,469</u></u>	<u><u>\$ 5,034,142</u></u>

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF EARNINGS RETAINED
FOR USE IN THE BUSINESS**

For Year Ended 31st December 1964

UNAPPROPRIATED

Balance as at 1st January 1964		\$ 18,684,605
Add: Net income for the year		5,808,469
		<u>\$24,493,074</u>
Deduct: Dividends paid or provided for —		
4½% cumulative preferred stock	\$ 281,250	
\$2.90 cumulative preferred stock	362,500	
\$2.65 cumulative preferred stock	371,000	
Class A stock	1,248,965	
Deferred stock	<u>220,000</u>	
	\$2,483,715	
Transfer to retained earnings — appropriated	<u>72,451</u>	<u>2,556,166</u>
Balance as at 31st December 1964		<u>\$21,936,908</u>

APPROPRIATED FOR GENERAL CONTINGENCIES

Balance as at 1st January 1964		\$ 881,253
Add: Transfer from retained earnings — unappropriated		<u>72,451</u>
Balance as at 31st December 1964		<u>\$ 953,704</u>

The accompanying notes form an integral part of these financial statements.

(1) All wholly-owned subsidiary companies are consolidated herein, and in addition British Columbia Telephone Company which is owned to the extent of 50.14% of the ordinary shares of that company, is included in the consolidation.

The accounts of a subsidiary company, Compania Dominicana de Telefonos, C. por A., have been consolidated on the basis of the Dominican peso being equivalent to the Canadian dollar. As at 31st December 1964, dividends declared, accrued interest and accrued service fees aggregating \$978,276, of which \$807,580 represents income of the current year, have not been remitted to the Company by the subsidiary due to exchange control restrictions. It is not possible to state when restriction on the export of currency will be fully removed and if so, the applicable rate of exchange.

(2) In January 1959, Compania Dominicana de Telefonos, C. por A. under the terms of a contract with the then existing Government of the Dominican Republic, offered for sale to unspecified Dominican persons or entities 40% of its existing capital shares issued and outstanding. This offer will remain open for a period of seven years from January 1959. In 1961, advances to Compania Dominicana de Telefonos, C. por A., in the amount of \$3,250,000 were repaid from the proceeds of sale to the Company of 33,817 shares of the common stock of Compania Dominicana de Telefonos, C. por A. at \$100 per share. In accordance with the terms of the contract referred to above, 40% of such shares were offered to Dominican persons or entities for a period of seven years from the date of the offer. Although the Government of the Dominican Republic acknowledged these offers, no acceptance of the offers has yet been received.

Under the terms of this contract, the Dominican Government also has the right to acquire at any time during the life of the contract, the telephone, telegraph and radio-telegraph property and related assets and liabilities of the company, at underlying book value.

(3) During the year the Company received from the Canadian War Damage Commission two payments in partial settlement of its claim in respect of its previous investment in Philippine Long Distance Telephone Company. The Company has credited the amount of these payments (\$150,173) to its investment account to reduce the carrying value of its investment in the ordinary shares of British Columbia Telephone Company.

NOTES TO FINANCIAL STATEMENTS

31st December 1964

(4) Long-Term Debt

Anglo-Canadian Telephone Company —		
6% Sinking Fund Debentures series "A"		
due 1st February 1983	\$ 4,940,000	
Less: Sinking fund instalment due 2nd		
February 1965	260,000	\$ 4,680,000
(\$260,000 principal amount re-		
tired annually under Trust Deed)		
British Columbia Telephone Company —		
First mortgage bonds —		
Series "A" 3¾% due 1st March 1971	\$16,500,000	
Series "B" 3⅓% due 1st March 1971	3,000,000	
Series "C" 3¾% due 1st March 1971	8,000,000	
Series "D" 4½% due 1st March 1971	8,000,000	
Series "E" 4¾% due 1st October 1975	7,000,000	
Series "F" 5% due 1st April 1982 ...	25,000,000	
Series "G" 5¼% due 1st Nov. 1983 ..	20,000,000	
Series "H" 6% due 15th Sept. 1984 ..	15,000,000	
Series "I" 5¾% due 1st August 1985	15,000,000	
Series "J" 5¾% due 15th July 1986	20,000,000	
Series "K" 5½% due 15th April 1988	20,000,000	
		157,500,000
		<u>\$162,180,000</u>

(5) Under the terms of the Trust Deed applicable to the 6% Sinking Fund Debentures of the Company, the Company has covenanted that it will not, so long as any Series "A" Debentures remain outstanding, declare or pay any dividends (other than stock dividends or dividends on its cumulative preferred shares) which would reduce the unappropriated surplus of the Company below the amount of \$4,083,011.

(6) Provisions have been made in prior years by charges against income in the net amount of \$8,670,544 for additional income taxes, payment of which has been deferred by claiming for tax purposes capital cost allowances in excess of depreciation provided in the accounts. With effect from 1st January 1958 the amount of capital cost allowance claimed has been restricted to the amount of depreciation recorded in the accounts.

(7) Capital Stock—Anglo-Canadian Telephone Company —

Class A Stock — Authorized 1,500,000 shares, \$10.00 par value; outstanding at 31st December 1964, 734,685 shares.

Deferred Stock — Authorized 200,000 shares, \$10.00 par value, outstanding at 31st December 1964, 200,000 shares.

Preferred Stock — Authorized 600,000 shares, cumulative, redeemable, \$50.00 par value; outstanding at 31st December 1964:

	Shares	Amount
4½% series	125,000	\$ 6,250,000
\$2.90 series	125,000	6,250,000
\$2.65 series	140,000	7,000,000
	<u>390,000</u>	<u>\$19,500,000</u>

ANNUAL REPORT OF THE AUDITORS

RIDDELL, STEAD, GRAHAM & HUTCHISON CHARTERED ACCOUNTANTS

630 Dorchester Blvd. W.
Montreal 2

27th January 1965

To the Shareholders,

Anglo-Canadian Telephone Company

Section 111 of the Quebec Companies'Act reads, in part, as follows:

"2. The auditors shall make a report to the shareholders on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state:

- a. Whether or not they have obtained all the information and explanations they have required, and
- b. Whether the balance sheet referred to in the report is drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company."

"3. The balance sheet shall be signed on behalf of the board by two of the directors of the company, and the auditors' report shall be attached to the balance sheet, or there shall be inserted at the foot of the balance sheet a reference to the report, and the report shall be read before the shareholders in general meeting, and shall be open to inspection by any shareholder."

We have examined the balance sheet of Anglo-Canadian Telephone Company as at 31st December 1964, the consolidated balance sheet of the Company and subsidiary companies as at that date, and the related statements of income and expense and retained earnings for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records of the Company and its subsidiaries and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheets and the related statements of income and expense and retained earnings were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company and its subsidiaries according to the best of our information and the explanations given to us and as shown by the books of the companies.

The notes to the financial statements refer briefly to matters which have an important bearing on the financial condition of the Company as at 31st December 1964.

The officers and directors of the Company have requested that we furnish the shareholders additional details with respect to the notes appended to the financial statements.

1. THE FINANCIAL STATEMENTS

The financial statements (appended to the foregoing report of the Board of Directors) covered by this report are the balance sheet, the statement of income and expenses and the statement of retained earnings of Anglo-Canadian Telephone Company, and the consolidated balance sheet, consolidated statement of income and expenses and consolidated statement of retained earnings of Anglo-Canadian Telephone Company and its subsidiaries: Dominion Directory Company Limited, Canadian Telephones and Supplies, Ltd., Compania Dominicana de Telefonos, C. por A., and British Columbia Telephone Company for the year ended 31st December 1964. Under generally accepted accounting principles the accounts of wholly or partly owned subsidiary companies are properly consolidated only when such companies are operated under the common control of a single parent and may be realistically regarded as an economic unit.

Since, as at 31st December 1964, the Company owned all of the outstanding equity stock of the first three subsidiary companies mentioned above, and 50.14% of the outstanding ordinary shares of British Columbia Telephone Company, and since all are engaged in related businesses, it follows that the accounts of the four subsidiaries are properly included in the consolidated statements.

Owing to the present exchange control restrictions in the Dominican Republic, as at 31st December 1964 dividends declared, accrued interest and accrued service fees aggregating \$978,276 have not been remitted to the Company by Compania Dominicana de Telefonos, C. por A. (Of this amount \$807,580 represents income of the current year.) It is not now possible to state when restrictions on the export of currency will be fully removed and if so, the applicable rate of exchange. However, during 1964 applications were approved for transfers of currency from the Dominican Republic amounting to \$850,000 Canadian funds.

2. THE INVESTMENT ACCOUNTS

The balance sheet of Anglo-Canadian Telephone Company as at 31st December 1964 shows investments in subsidiary companies totalling \$52,110,123. Of this total, \$7,586,419 represents investments in the three wholly owned subsidiaries, and the remaining \$44,523,704 represents the cost to Anglo-Canadian Telephone Company of 1,153,920 ordinary shares of British Columbia Telephone Company. This represents a reduction during 1964 of \$163,993 in the book value of the British Columbia Telephone Company shares as a result of the following transactions:

20th February 1964 Sale of 70 6% preference and 53 6% preferred shares of British Co- lumbia Telephone Company	\$ 13,820
25th May 1964 Amount received from Canadian War Damage Commission as partial settle- ment of claim in respect of the Company's previous investment in Philippine Long Dis- tance Telephone Company	75,063
4th December 1964 — do —	75,110
<i>Total reduction in investment</i>	<u>\$163,993</u>

As noted above the accumulated cost of the investment in British Columbia Telephone Company has been reduced by \$163,993 including a further amount received from the Canadian War Damage Commission as partial settlement of its claim in respect of its previous investment in Philippine Long Distance Telephone Company. This conforms to the basis upon which the value originally attributed to these investments was arrived at. The ordinary shares are the only class of shares of British Columbia Telephone Company having voting power under normal circumstances.

In January 1959 the subsidiary company, Compania Dominicana de Telefonos, C. por A., under the terms of a contract negotiated with the then existing Government of the Dominican Republic, offered for sale to unspecified Dominican persons or entities 40% of its existing capital shares issued and outstanding. This offer will remain open for a period of seven years from January 1959.

In 1961, advances to Compania Dominicana de Telefonos, C. por A. in the amount of \$3,250,000 were repaid from the proceeds of the sale to the Company of 33,817 shares of the common stock of Compania Dominicana de Telefonos, C. por A. at \$100 per share. In accordance with the terms of the contract referred to above, 40% of such shares were offered to Dominican persons or entities, for a period of seven years from the date of the offer. Although the Government of the Dominican Republic acknowledged these offers, no acceptance of the offers has yet been received.

Under the terms of this contract, the Dominican Government also has the right to acquire at any time during the life of the contract, the telephone, telegraph and radio-telegraph property and related assets and liabilities of the company at underlying book value, including a fixed amount of \$2,279,205. This additional value (\$2,279,205) determined for the property has been recorded as telephone plant adjustment and the capital surplus arising therefrom was capitalized during 1958 by the issuance of \$2,279,200 par value of common shares to Anglo-Canadian Telephone Company.

3. CLAIMS ON EARNINGS AND RESTRICTIONS ON DIVIDENDS

On 1st February 1958 the Company issued \$6,500,000 6% Sinking Fund Debentures, Series A, maturing 1st February 1983. Under the terms of the Trust Agreement the Company covenanted to pay to the Trustee in each of the years 1959 to 1982, inclusive, a sum sufficient to retire \$260,000 principal amount of these debentures, the remaining balance of \$260,000 being payable at maturity. In addition, Anglo-Canadian Telephone Company covenanted, in effect, under the Trust Agreement that it will not, so long as any Series A Debentures remain outstanding, declare or pay any dividends (other than stock dividends or dividends on its cumulative preferred shares) in excess of the net income of the Company earned after 1st January 1958 plus the sum of \$500,000.

Riddell, Stead, Graham & Sonnleitner

Auditors

DIRECTORS

THOMAS A. BOYD

JAMES J. CLERKIN, JR.

ARISTIDE COUSINEAU

JOHN J. DOUGLAS

THEODORE S. GARY

CYRUS H. MCLEAN

DONALD C. POWER

OSMOND B. THORNTON

A. S. TORREY

LESLIE H. WARNER

OFFICERS

JOHN J. DOUGLAS
President

THEODORE S. GARY
Vice-President

RALPH D. HEUSEL, *Assistant Treasurer*

CAMERON HOUGH
Secretary and Treasurer

HAROLD H. HOWLETT
Assistant Secretary

TRANSFER AGENTS AND REGISTRARS

CANADA

CUMULATIVE PREFERRED STOCK

The Royal Trust Company, Montreal, P.Q., Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John and Halifax

CLASS A STOCK

Montreal Trust Company, Montreal, P.Q., Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Vancouver, Saint John and Halifax

UNITED STATES

Bankers Trust Company, New York, New York, U.S.A.



715 VICTORIA SQUARE, MONTREAL 1, P.Q.